Baton Broadcasting Incorporated
1st Annual Report

1972

Directors and Officers

JOHN WHITE HUGHES BASSETT
President, Chairman of the Board and Director

JOHN FREDERICK BASSETT
Vice-President and Director

EDWARD JOSEPH DELANEY
Vice-President, Secretary and Director

FOSTER WILLIAM HEWITT
Vice-President and Director

LAWRENCE MALCOLM NICHOLS
Vice-President, Treasurer and Director

GORDON VINCENT ASHWORTH
Director

ALLAN LESLIE BEATTIE
Director

CHARLES FOWLER WILLIAMS BURNS
Director

CHARLES LEONARD DUBIN
Director

FREDRIK STEFAN EATON
Director

EDWIN ALAN GOODMAN
Director

TRANSFER AGENT AND REGISTRAR
The Canadian Imperial Bank of Commerce

AUDITORS
Clarkson, Gordon & Co.

Report to the Shareholders

Baton Broadcasting Incorporated was formed on August 11th, 1971, for the purpose of acquiring all the issued and outstanding shares of CFTO-TV Limited and Glen-Warren Productions Limited, as part of corporate reorganization. These acquisitions were effected on August 31st, 1971 at which time, Baton also purchased 99.45% of the issued and outstanding shares of Argonaut Football Club Limited.

On November 10th, 1971, the Company entered into an underwriting agreement with Burns Bros. and Denton Limited and Wood Gundy Limited for sale to the public of 525,000 of its common shares. This transaction was closed on December 2nd, 1971 and the net proceeds of $5,675,250 were applied against the Company's bank borrowings. The Company's stock was subsequently listed on both the Toronto and Montreal Stock Exchanges.

During the 1972 fiscal year, the Company acquired CFQC Broadcasting Limited, which owns and operates a radio and television station in Saskatoon. Results of this operation are included in the statements for the period January 1st, 1972 to August 31st, 1972. The Company also acquired Confederation Broadcasting (Ottawa) Limited, which owns and operates radio station CFGO in Ottawa. Results of this operation are included in the statement for the period May 1st, 1972 to August 31st, 1972. Another acquisition carried out during 1972 was the purchase of 60% of the outstanding shares of Grove Enterprises Corporation. Grove subsequently acquired a theatre complex, including cocktail lounges, restaurants, and shops in Miami, Florida. The theatre and restaurant operation was not activated until after the close of the fiscal year, and therefore the income statement is not affected by this acquisition. The Company also acquired the remaining outstanding shares of Argonaut Football Club during 1972 and invested in Placements La Rondelle Ltee, a company that acquired approximately 58% of the outstanding shares in Canadian Arena Company. Canadian Arena Company owns the Montreal Forum and the Montreal Canadian hockey franchise. This item is shown as an investment in the balance sheet.

This is the first annual report of Baton Broadcasting Incorporated. Comparative figures are presented in the financial statements on the Balance Sheet only. A statement of combined income of the constituent companies for the fiscal year ended August 31st, 1971 was prepared on a pro forma basis for the Company prospectus issued on November 10th, 1971, and therefore some comparisons can be made in relation to revenues and results of that year.

Net income for the year totalled $3,142,561 or $1.02 per share (51¢ on split shares). This is an increase of $913,970 or 41% over the 1971 pro forma net income of $2,228,591. The 1971 earning figure included a non-recurring profit of $110,113 on the sale of an investment.

Total revenues from the sale of advertising amounted to $18,531,149 for the year ended August 31st, 1972. This represents an increase of $4,244,392 or 30% over advertising revenues shown in the 1971 pro forma statement. The

inclusion of television and radio operations in Saskatoon and the radio operation in Ottawa contributed significantly to this increase but advertising revenues of other operations, particularly CFTO-TV, showed substantial gains in 1972.

The television stations in both Toronto and Saskatoon are presently rated number one in viewing in the markets they serve. The same is also true of the radio stations in Windsor and Saskatoon. Radio station CFGO formerly operated under the call letters CKPM and was formerly lowest rated in the market. On September 1st, 1972 a new programming format was introduced and the station call letters changed to CFGO. Latest ratings show the station has improved its position in the Ottawa market.

Production revenues experienced an increase of $864,223 to a total of $7,478,922 for a 13% gain. Substantially all production revenues are earned by Glen-Warren Productions Limited and its wholly-owned subsidiaries. These companies engage in the production of television programs, television commercials and feature films. Glen-Warren utilizes the resources and facilities of CFTO-TV Limited in its production activities. The combination of these two organizations provides one of the most up-to-date production facilities, staffed with skilled employees, in North America. Programs produced for sale to the CTV Network include such shows as "Pig & Whistle", "Rollin' ", and "The Ian Tyson Show". In addition, a number of programs have been produced primarily for the U.S. market and have been shown on major U.S. television networks.

Revenues from the operation of Argonaut Football Club Limited reflect the operation of this company for the year ended December 31st, 1971. Revenues of this operation totalled $1,899,352, an increase of $189,123 or 11% over the preceding year.

Application has been made to the Canadian Radio-Television Commission for the renewal of licenses for CFQC television and radio, CFGO radio, and CFTO-TV. These licenses expire in March 1973 (CFQC), June 1973 (CFGO), and September 1973 (CFTO), and at the time of writing no decision has been announced.

We would like to take this opportunity to express our appreciation to the management and staff of all our companies who have contributed to the success of the past year.

On behalf of the Board,

John Bassett

John W. H. Bassett,
President and Chairman of the Board.

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James Stewart and Helen Hayes were featured in "Harvey", a programme produced through the facilities of Glen-Warren.

"One Night Stand", produced at the studios of CFTO-TV, featured an outstanding array of performers led by the great Lionel Hampton.

"The Miss Canada Pageant", produced by Baton-owned Cleo Productions, continues to be one of Canada's most glamorous and popular annual spectaculars.

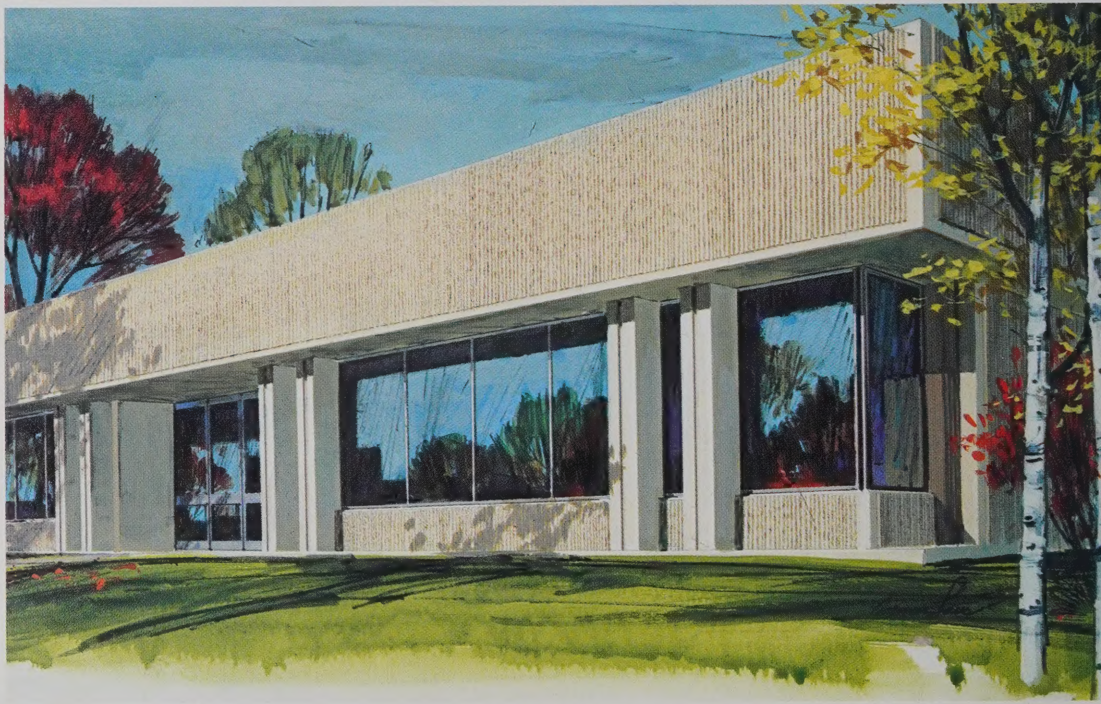
An adaptation of Thomas Wolfe's "Look Homeward Angel" with stars E. G. Marshall and Geraldine Page, was produced at CFTO for North American audiences.

The St. Michael's Boys School Choir of Toronto performs on the Sandler and Young Special.

"Two Christmases" with Tony Sandler and Ralph Young also starred Jane Morgan and Constance Towers.

Studio Six, one of the largest and most modern facilities in the world today, has added a whole new dimension to Baton Broadcasting.

As well as being North America's foremost videotape production centre, CFTO-TV in survey after survey dominates as the most viewed television station in the Toronto market.



CKLW has consistently rated first in the Detroit market area survey and is Canada's most listened to radio station.

CFQC Radio and Television, are rated Number One in the Saskatoon, Saskatchewan market. CFQC Radio will celebrate it's 50th year of broadcasting in 1973.

CFGO Radio, serving Greater Ottawa, is rapidly gaining popularity with its accent on contemporary music and authoritative news coverage.

The Argos play to sellout crowds at the C.N.E. Stadium in Toronto and across Canada.

Agincourt Productions feature length movie "Face off", starring Art Hindle and Trudy Young, has now played in eighteen countries.

Consolidated Balance Sheet

August 31, 1972 (with comparative figures for 1971)

Assets

	1972	1971
Current		
Cash and short term investments	$ 782,509	$ 1,177,138
Accounts receivable	6,590,119	4,552,713
Notes receivable	491,700	
Inventory of programs, at the lower of cost and net realizable value	1,496,564	755,858
Prepaid and deferred expenses	993,699	789,199
Due from shareholders		285,450
Total Current Assets	**10,354,591**	7,560,358
Investments		
CKLW-TV, at cost plus accrued interest (note 3)	4,985,113	4,603,812
Other companies, at cost less amounts written off (note 4)	1,908,743	865,275
Motion pictures, at cost less allowance for losses	251,099	261,020
Marketable securities, at cost (approximating market value)		382,427
Total Investments	**7,144,955**	6,112,534
Fixed Assets (note 5)		
Land	1,918,182	1,508,742
Buildings	7,157,337	5,267,379
Production and transmitting equipment	10,591,811	7,681,827
Automotive equipment, furniture and fixtures	839,160	493,505
	20,506,490	14,951,453
Less accumulated depreciation	7,622,608	4,710,158
Total Fixed Assets	**12,883,882**	10,241,295
Other Assets		
Television and radio broadcasting licences and goodwill, at cost (note 1)	7,212,239	3,426,532
Football franchise and goodwill, at cost	1,762,285	1,745,357
Rights to Miss Canada and Miss Teenage Canada Pageants, at cost	197,627	97,627
Total Other Assets	**9,172,151**	5,269,516
	$39,555,579	$29,183,703

(See accompanying notes)

Baton Broadcasting Incorporated

(Incorporated under the laws of Ontario) and subsidiary companies

Liabilities and Shareholders' Equity

	1972	1971
Current		
Bank indebtedness (note 6)	$ 5,265,495	$11,368,394
Accounts payable and accrued charges	2,276,995	2,629,559
Advance football ticket sales (note 2)	1,004,673	
Income and other taxes payable	1,537,449	871,832
Long-term debt due within one year and accrued interest (note 7)	1,544,223	914,227
Total Current Liabilities	**11,628,835**	15,784,012
Deferred Income Taxes	**4,045,900**	2,917,900
Long-term Debt (note 7)	**11,647,160**	6,909,529
Shareholders' Equity		
Capital—		
Authorized (note 8):		
1972—4,500,000 common shares without par value		
1971— 500,000 common shares with a par value of $1 each		
Issued:		
1972—3,225,000 common shares	5,975,250	
1971— 300,000 common shares		300,000
Retained earnings	2,986,172	
Contributed surplus	3,272,262	3,272,262
Total Shareholders' Equity	**12,233,684**	3,572,262
	$39,555,579	$29,183,703

On behalf of the Board:

John Bassett Director

[signature] Director

Consolidated Statements

For the year ended August 31, 1972

Income

Revenues:	
Time sales—net of agency commissions	$18,531,149
Productions	7,478,922
Football operating income	1,899,352
	27,909,423
Expenses:	
Programming	13,279,310
Selling and administrative	5,270,143
Football operating expenses	1,452,353
	20,001,806
Operating income before the undernoted items	7,907,617
Investment income	185,155
Income before interest, depreciation and income taxes	8,092,772
Deduct:	
Interest expense—	
Long-term debt	508,896
Current debt	289,588
	798,484
Depreciation (note 5)	1,008,777
	1,807,261
Income before income taxes	6,285,511
Income taxes:	
Current	2,014,950
Deferred	1,128,000
	3,142,950
Net income for the year	$ 3,142,561
Earnings per share:	
Based on average shares outstanding during the year	$ 1.02

(See accompanying notes)

Retained Earnings

Balance at beginning of the year	Nil
Net income for the year	$ 3,142,561
Share issue expenses written off	156,389
Balance at end of the year	$ 2,986,172

(See accompanying notes)

Source and Application of Funds

Source of funds:	
From operations—	
Net profit for the year	$ 3,142,561
Add items not involving an outlay of funds:	
Depreciation (note 5)	1,008,777
Deferred income taxes	1,128,000
Provision for losses on non-current investments	287,000
	5,566,338
Issue of common shares (note 8A)	5,675,250
Net increase in long-term debt less portion due within one year	4,237,648
Notes receivable	491,700
	15,970,936
Application of funds:	
Acquisition of subsidiaries (note 1)—	
Cash consideration	4,305,500
Working capital deficiency of subsidiaries acquired	842,609
Long-term debt of subsidiaries acquired	(245,289)
	4,902,820
Purchase of fixed assets	2,289,263
Investments	1,573,054
Organization expenses	156,389
Acquisition of rights to Miss Teenage Canada Pageant	100,000
	9,021,526
Increase in working capital	6,949,410
Working capital deficiency, beginning of the year	8,223,654
Working capital deficiency, end of the year	$ 1,274,244

(See accompanying notes)

Auditors' Report

To the Shareholders of Baton Broadcasting Incorporated:

We have examined the consolidated balance sheet of Baton Broadcasting Incorporated and its subsidiary companies as at August 31, 1972 and the consolidated statements of income and retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at August 31, 1972 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
November 14, 1972.

Clarkson, Gordon & Co.
Chartered Accountants

Notes to the Consolidated Financial Statements

August 31, 1972

1. Acquisitions and accounting treatment

The Company made the following acquisitions during the year:

CFQC Broadcasting Limited—

Effective January 1, 1972 the Company acquired the radio and television broadcasting assets and operations of CFQC Broadcasting Limited (formerly A. A. Murphy & Sons Limited) for an effective price of $4,000,000 cash—representing $5,500,000 paid for the shares of CFQC, less $1,500,000 received concurrently by CFQC from the sale of its non radio and television broadcasting assets and operations. The book value of the net tangible assets so acquired was $466,128, which value was subsequently increased for purposes of consolidation by $237,875 to $704,003 to reflect the estimated fair value of such assets at the date of acquisition.

Confederation Broadcasting (Ottawa) Limited—

Effective May 2, 1972 the Company acquired 60% of the outstanding shares of Confederation Broadcasting (Ottawa) Limited for $305,500 cash. At the date of acquisition Confederation had an excess of liabilities over the book value (which approximated fair value) of its tangible assets. The portion of such excess applicable to the Company's investment was $184,210.

Both these transactions have been accounted for as purchases for purposes of consolidation.

The difference of $3,785,707 between the cost of the above acquisitions and the fair value of the underlying net tangible assets at the dates of acquisition has been included in the consolidated balance sheet of the Company at August 31, 1972 under the caption "Television and radio broadcasting licences and goodwill, at cost".

It is not the Company's intention to amortize the amounts carried in the balance sheet for "Television and radio broadcasting licences and goodwill" and "Football franchise and goodwill" unless their value is impaired.

2. Financial statement presentation

The consolidated financial statements include the financial position of the following companies at August 31, 1972 and the results of their operations for the year then ended, or from the date of their acquisition to August 31, 1972 in the case of subsidiaries acquired during the year—

Baton Broadcasting Incorporated

CFTO-TV Limited and its subsidiaries:

- CKLW Radio Broadcasting Limited
- CKLW Radio Sales Inc.
- CFQC Broadcasting Limited
- Confederation Broadcasting (Ottawa) Limited

Glen-Warren Productions Limited and its subsidiaries:

- Agincourt Productions Limited
- The Twenty-Fifth Frame Film Production Company Limited

– Moanne Company Limited
– Variety Artists Productions Limited
– Cleo Productions Limited
– Grove Enterprises Corporation

together with the financial position of Argonaut Football Club Limited as at December 31, 1971, the date of its most recent financial year-end and the results of its operations for the year then ended. There were no significant changes in net current assets, net fixed assets or net worth of Argonaut Football Club between December 31, 1971 and August 31, 1972 except that funds received primarily from season ticket sales prior to August 31, 1972 have been advanced to CFTO. This inter-company loan has been reflected on the consolidated balance sheet as "Advance football ticket sales".

3. Investment in CKLW-TV

CFTO has a 75% interest in CKLW-TV which is carried at a cost of $3,750,000 U.S. ($3,830,000 Cdn.) plus accrued interest of $1,155,113.

By agreement St. Clair River Broadcasting Limited, a subsidiary of the Canadian Broadcasting Corporation, must purchase CFTO's interest in CKLW-TV prior to May 31, 1975. The agreement provides for a selling price equal to the aggregate of CFTO's investment in CKLW-TV at cost plus accrued interest and CFTO's share of any accrued profits (but not reduced by CFTO's share of accrued losses) to the date of sale.

The funds required by St. Clair to purchase its 25% interest in CKLW-TV were obtained by the Canadian Broadcasting Corporation from the Treasury Board. The Canadian Broadcasting Corporation has undertaken to use its best efforts to obtain from the Treasury Board the funds necessary for the purchase of CFTO's interest.

The operating losses of CKLW-TV since the date of acquisition amounted to $3,564,000 and total losses after interest expense and extraordinary items amounted to $5,468,000. Because, as stated above, CFTO's investment is not of a permanent nature, CFTO's 75% interest in the financial position and the operating losses of CKLW-TV is not consolidated in these financial statements and this investment is shown at cost plus accrued interest thereon.

In addition CFTO and St. Clair have jointly and severally guaranteed bank loans made to CKLW-TV in the amount of $2,774,000 at August 31, 1972. Upon the purchase of CFTO's interest by St. Clair, CFTO will be released from its obligation under such guarantee.

4. Investments in other companies

Investments in other companies on the consolidated balance sheet consist of the following:

	1972	1971
Israel-Canada Television Studios Limited:		
– shares, at cost (which approximates underlying net book value)	$ 13,194	$ 13,194
– debentures and advances, at cost less amounts written off	203,482	249,482
	216,676	262,676

Continued

	1972	1971
CTV Television Network Ltd.:		
– shares, at cost less amounts written off	$ 165,290	$136,849
(1971 includes investment in Canet Holdings Limited which was transferred to CTV in 1972)		
Placements La Rondelle Ltee:		
– shares, at cost	6,000	
– notes, at cost	1,520,777	
	1,526,777	
Rogers Broadcasting Limited:		
– notes, due February 6 and June 19, 1973	125,000	125,000
– interest accrued to date, due on maturity	22,250	14,750
	147,250	139,750
General Broadcast Company Limited:		
– notes, due June 19, 1973	300,000	300,000
– interest accrued to date, due on maturity	44,450	26,000
	344,450	326,000
	2,400,443	865,275
Less notes receivable included in current assets	491,700	
	$1,908,743	$865,275

5. Fixed assets and depreciation

Fixed assets are shown at original cost to the Company's subsidiaries, adjusted by an increase of $2,027,025 to reflect fair values at the date of acquisitions of the subsidiaries by the Company. This increase of $2,027,025 has been allocated as follows: land—$1,177,076, buildings—$331,872 and production and transmitting equipment—$518,077. Accumulated depreciation at the date of acquisition represented depreciation previously provided by the subsidiaries on such assets, restated where necessary, to conform to the depreciation policy of the Company.

Rates and bases of depreciation applied by the Company and its subsidiaries have been as follows:

Buildings	—	2½% per annum on a straight line basis
Production and transmitting equipment	—	7 to 12½% per annum on a straight line basis
Automotive equipment	—	30% per annum on a diminishing balance basis
Office furniture and fixtures	—	10% per annum on a straight line basis

6. Bank indebtedness

The current bank indebtedness of the companies and a term bank loan of $4,500,000 are secured by general assignments of their book debts, and, except for the bank indebtedness of CFQC, by a debenture in the principal amount of $10,000,000 containing a first mortgage on the land and premises of CFTO and a first floating charge on the undertaking and remaining assets of CFTO, and by a guarantee of the Company secured by a pledge of its shares of Argonaut Football Club.

7. Long-term debt

The long-term debt of the companies consists of the following:

		August 31 1972	August 31 1971
8% promissory note, due August 25, 1981		$ 675,000	$ 750,000
9% promissory notes, principal and interest due May 31, 1975 ($2,500,000 U.S. plus accrued interest of $534,300 U.S.)		3,091,300	2,836,300
Promissory notes due January 31, 1976, repayable annually in amounts equal to 50% of the cash profits (as defined) of CKLW together with interest at a rate of ½% above the Company's bank's prime lending rate throughout the term of the notes ($3,130,176 U.S. plus accrued interest of $17,400 U.S.)		3,195,231	3,682,633
Equipment contracts, at rates of interest of 8¾% and 9%, payable over one to two years, secured by liens against such equipment		217,174	554,823
Term bank loan, secured as described in note 6, bearing interest at a rate of 1½% above the Company's bank's prime lending rate repayable as follows:			
January 31, 1973	$ 500,000		
January 31, 1974	500,000		
January 31, 1975	1,500,000		
January 31, 1976	1,000,000		
January 31, 1977	1,000,000		
	$4,500,000	4,500,000	
7¼% term bank loan, repayable by monthly instalments of $6,500 secured by general assignment of book debts of CFQC		341,000	
9¼% mortgage due July 1, 1977, repayable by monthly instalments of $5,428 including interest and principal, secured by office building and land of CKLW		514,690	
8% mortgage due March 15, 1973 (re-negotiable), repayable by monthly instalments of $2,200 including interest and principal, secured by land and buildings of CFQC		189,164	
9% mortgage due May 15, 1987, repayable by monthly instalments of $4,818 including interest and principal, secured by land and buildings of Grove ($473,745 U.S.)		467,824	
		13,191,383	7,823,756
Portion due within one year		1,544,223	914,227
		$11,647,160	$6,909,529

Long-term debt repayments due in each of the next five years are as follows:

Year ended August 31,	Consolidated balance sheet
1973	$1,544,223
1974	760,102
1975	1,705,000*
1976	3,720,207**
1977	1,161,000

*Debt repayments in 1975 exclude $2,550,000 principal and $1,453,700 interest which will accrue to date of payment on the 9% promissory notes relating to the purchase of CKLW-TV since funds sufficient to meet these payments are to be received on the sale of CFTO's interest in CKLW-TV (note 3).

**Debt repayments in 1976 include $2,513,207 on the promissory notes due January 31, 1976 which will be payable in each of the years 1974 and 1975 to the extent of 50% of the cash profits (as defined) of CKLW in each preceding year ended August 31.

8. Share capital

A. 1971 transactions—

By Articles of Amendment dated October 8, 1971, the Company converted and subdivided its 300,000 issued and 200,000 unissued common shares with a par value of $1 each into 2,700,000 issued and 1,800,000 unissued common shares without par value.

Pursuant to an underwriting agreement dated November 10, 1971, the Company issued 525,000 common shares without par value for $5,675,250 cash. The transaction was completed on December 2, 1971.

B. Subsequent event—

By Articles of Amendment dated October 27, 1972, the Company converted and subdivided its 3,225,000 issued and 1,275,000 unissued common shares without par value into 6,450,000 issued and 2,550,000 unissued common shares without par value.

Pursuant to an underwriting agreement dated November 14, 1972, the Company issued 500,000 common shares without par value for $5,125,000 cash.

9. Translation of foreign currency

Current assets and liabilities in U.S. dollars have been translated into Canadian dollars at the approximate rate of exchange at August 31, 1972. Long-term debt has been translated at the rates prevailing on the dates of original borrowing. Transactions during the period have been translated at the rates of exchange prevailing on the respective dates of the transactions.

10. Statutory Information

The aggregate remuneration paid during the year by the Company and its subsidiaries to the directors and senior officers of the Company was approximately $351,000.

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